



Funding Overview

SCHOOL AID

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February 2007

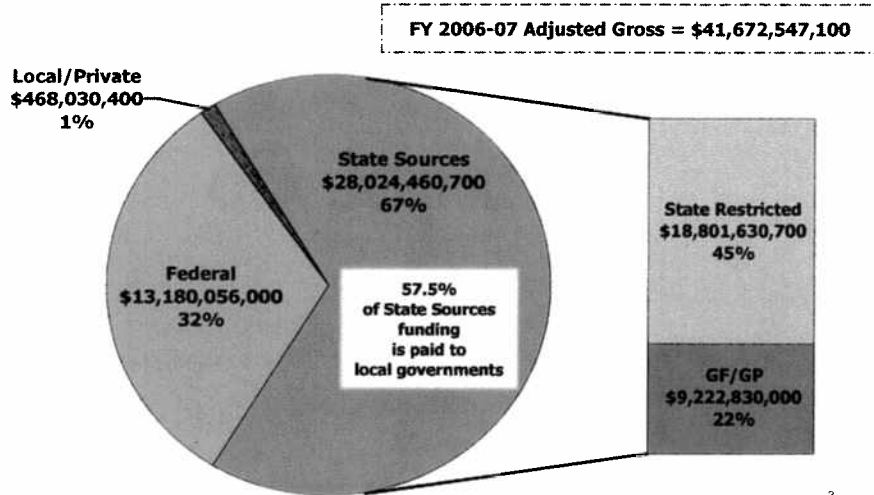
The fiscal information in this presentation is based on data through January 2007.

School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

- Michigan Constitution

FY 2006-07 Total State Budget Adjusted Gross Funding Sources



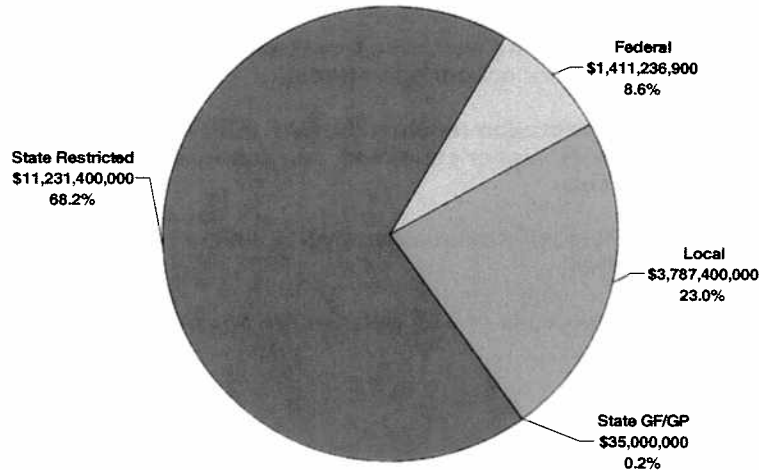
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SCHOOL AID REVENUE

FY 2006-07 School Revenue

Most FY 2006-07 school revenue is from state resources.

Total Revenue = \$16,465,036,900



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Federal Revenue

- No Child Left Behind Funding = \$986.5 million
- Special Education = \$424.7 million

Local Revenue (Operational)

- 18 Mills Non-Homestead = \$2,587.2 million
- ISD Operation Mills = \$45.9 million
- Special Education Mills = \$965.1 million
- Vocational Education Mills = \$189.2 million

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School Aid Fund (SAF)

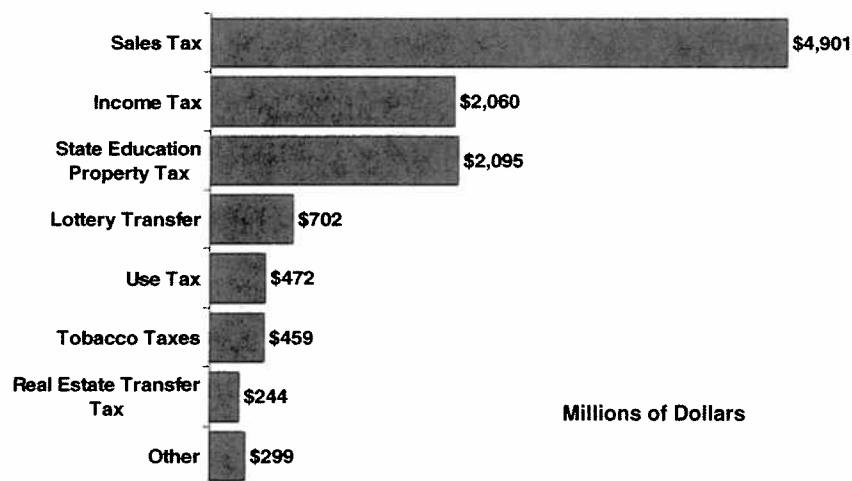
- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked, or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires the SAF to be used exclusively for schools, higher education, and school employee retirement.
- SAF will receive approximately \$11.2 billion in revenue for FY 2006-07.
- Largest sources of SAF revenue are shown on the next slide.

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FY 2006-07 SAF Revenue

State sales tax, state income tax, and state education property tax are the three largest sources of SAF revenue.



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Source: January 2007 Revenue Estimating Conference.

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FY 2006-07 SAF Revenue Sources

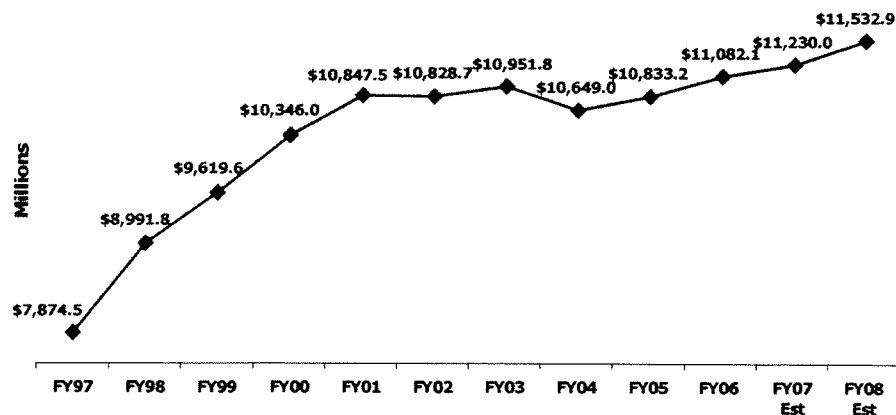
- **Sales Tax** – SAF receives 73.3% of gross sales tax revenue. Tax rate is 6%.
- **State Education Tax** – 6 mills levied on all property; SAF receives 100%.
- **Income Tax Earmarking** – SAF receives 23% of gross income tax revenue with adjustments for rate changes.
- **Lottery Transfer** – SAF receives the net revenue from lottery sales.
- **Use Tax** – SAF receives 33.3% of gross use tax revenue. Tax rate is 6%.
- **Tobacco Taxes** – SAF receives 41.6% of cigarette tax revenue.
- **Real Estate Transfer Tax** – SAF receives 100%. Tax rate is 0.75% of the sale price of real estate.
- **Other taxes** – Includes Liquor Excise Tax, Casino Wagering Tax, Industrial & Commercial Facilities Tax, Commercial Forest Tax, and others.

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School Aid Fund Growth

Growth in the School Aid Fund slowed beginning in FY 2001, but has increased over the last two fiscal years.

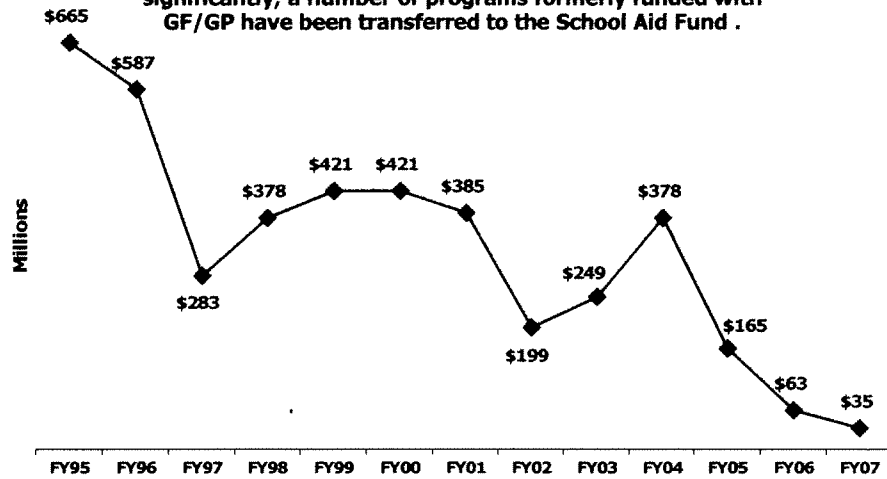


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GF/GP Contribution to Schools

While the GF/GP contribution to schools has dropped significantly, a number of programs formerly funded with GF/GP have been transferred to the School Aid Fund .



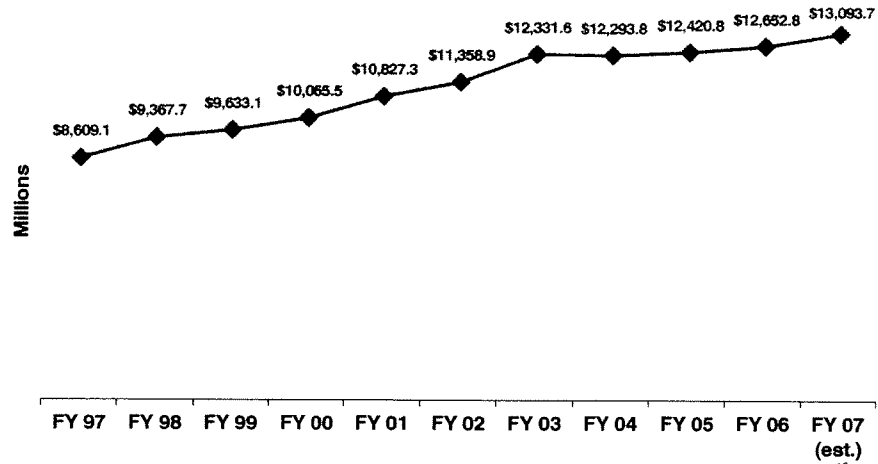
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SCHOOL AID SPENDING

School Aid Expenditures

In general, School Aid expenditures have grown over the last ten years.



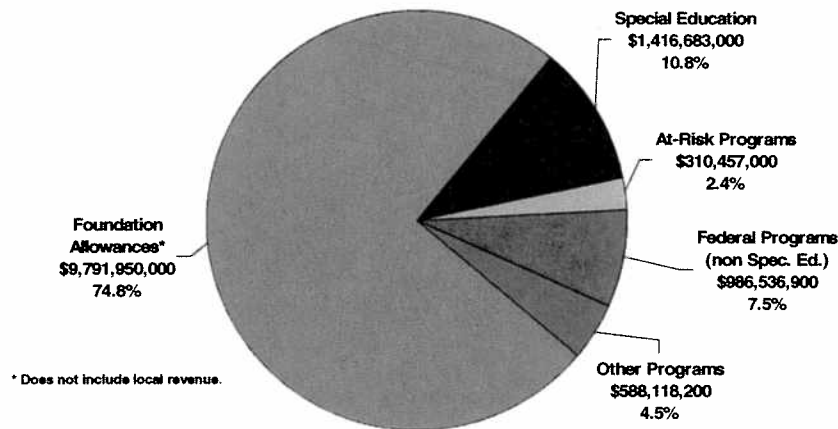
Did you know . . .

- There are 781 school districts in Michigan: 552 local districts, plus 229 public school academies.
- There are 1.7 million public school pupils in Michigan.
- The School Aid budget supports all 781 districts to provide a free education to 1.7 million pupils.

School Aid Major Spending Categories

Foundation allowances, used for school operations, absorb \$3 out of every \$4 spent.

FY 2006-07 Total = \$13,093,745,100



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School Aid Major Spending Categories

- **Foundation Allowances**
 - Per-pupil payment for general school operations
 - \$9.8 billion in FY 2006-07
 - 74.8% of the School Aid budget
- **Special Education**
 - Reimburses districts for some of their special education costs
 - \$1.4 billion in FY 2006-07
 - 10.8% of the School Aid budget
- **At-Risk Programs**
 - Additional funds to help students at risk of academic failure
 - \$310.5 million in FY 2006-07
 - 2.4% of the School Aid Budget

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Foundation Allowance

- School funding tied to each pupil counted in a district's membership.
- Districts receive foundation allowance (per pupil funding amount initially determined in 1994-95, based on what the district was receiving on a per pupil basis in 1993-94).
- Minimum level of funding established: \$4,200
- Basic level determined: \$5,000
- State Guaranteed Maximum (hold-harmless) set: \$6,500

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Foundation Allowance: State/Local Funding

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per pupil basis.
- State deducts per pupil local revenue from the lesser of foundation allowance or state maximum per pupil amount.
- Districts above the state maximum (hold-harmless districts) are allowed, by law, to levy additional mills (with voter approval) to achieve their prescribed foundation allowance.

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Foundation Allowance Funding

State/Local Foundation Allowance Funding Examples

(Lesser of Foundation or State Max)(# of Pupils) – Local Revenue = State Revenue*

FY 2006-07

	<u>Foundation Allowance</u>	<u>Local Non- Homestead 18 mills Revenue</u>	<u>State Revenue</u>	<u>Local Hold- Harmless Revenue</u>
Kalkaska School District	\$7,085	\$3,657	\$3,428	\$0
Brighton Schools	\$7,241	\$1,731	\$5,510	\$0
Waverly School District	\$9,044	\$2,865	\$5,520	\$659

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Foundation Allowance Grant Increases

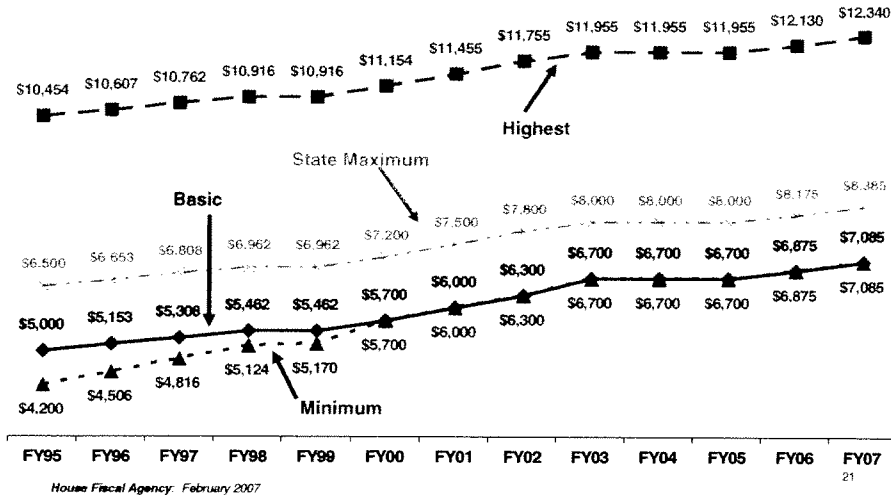
- Dollar amount of state funding available determines increase in basic foundation allowance.
 - Every district at or above basic foundation allowance receives the same per pupil dollar increase.
 - In 1999-2000, minimum funded districts “caught up” to basic foundation allowance and began receiving the same per pupil increase as all other districts.
 - In FY 2002-03, districts at the basic received a \$200 equity payment, decreasing the gap from the state maximum and the basic from \$1,500 to \$1,300.

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Foundation Allowance

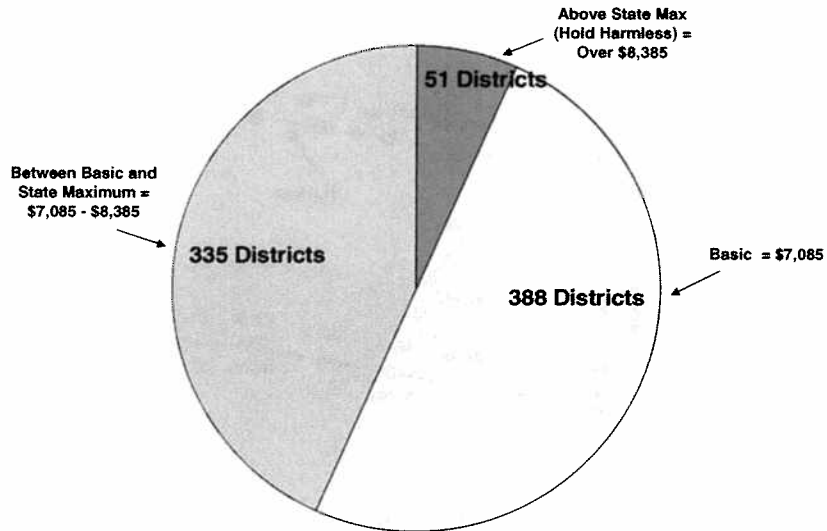
FY 1999-2000 was the first time
that all districts reached the basic foundation allowance.



Foundation Allowance: Equity

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost 3:1.
- In FY 2006-07, the difference between the highest and lowest is less than 2:1.
- In FY 1994-95 there were 356 districts and public school academies below the basic foundation allowance.
- By FY 1999-2000, all districts and public school academies were at or above the basic foundation allowance.

2006-07 Foundation Allowance Equity District Per Pupil Funding

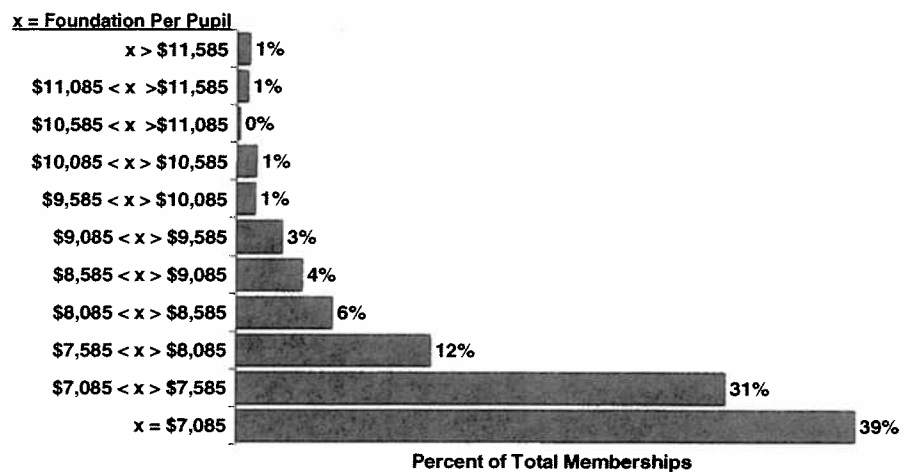


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FY 2006-07 Pupil Distribution

70% of pupils are concentrated in districts with a foundation revenue per pupil of less than \$7,585.



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Public School Academies (Charter Schools)

- A public school academy is a special type of public school formed by individuals or groups of individuals to use a special educational approach or serve a particular school population.
- Public school academies have been in existence since FY 1994-95 in Michigan.
- Charter schools are authorized to operate by universities, community colleges, intermediate school districts, and local school districts.

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FY 2006-07 Facts About Public School Academies (PSAs)

- Number: 229 schools
- Pupils: 96,700 pupils in PSA
- Average size: 425 pupils per school
- Percent of pupils in PSAs: 5.8% of public school students
- The number of public school academies that state universities may authorize is currently limited to 150.
- PSA FY 2006-07 foundation allowance equals the lower of :
 - Foundation allowance of the school district in which it is physically located
 - OR
 - \$7,385 per pupil

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Special Education

FUNDING

- Second largest School Aid appropriation in FY 2006-07
 - \$992.0 million state dollars
 - \$424.7 million federal dollars
- Reimburses school districts for the costs of educating special education students.

PAYMENT

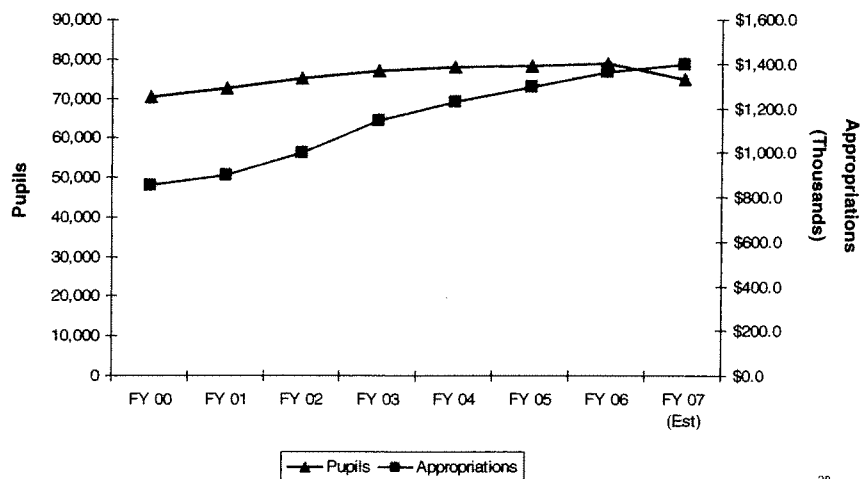
- A 1997 court ruling (*Durant* ruling) specified the amount of special education funding the state must pay:
 - State must pay 28.6138% of special education program costs.
 - State must pay 70.4165% of special education transportation costs.

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Special Education Appropriations

Spending for Special Ed has grown by 66% since FY 1999-2000 while the number of Special Ed pupils has grown only 10% during the same period.



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At-Risk Program

- **Third largest state-funded School Aid appropriation**
- **Additional funds for each pupil who meets the income eligibility for free-meal assistance**
- **Makes an extra payment equal to 11.5% of a district's foundation allowance for each eligible pupil.**
- **Current appropriation is not sufficient to meet the necessary funding level; thus, payments will be pro-rated.**

Other School Aid Issues

- **Declining enrollment**
- **Retirement Costs**
- **Infrastructure Financing**

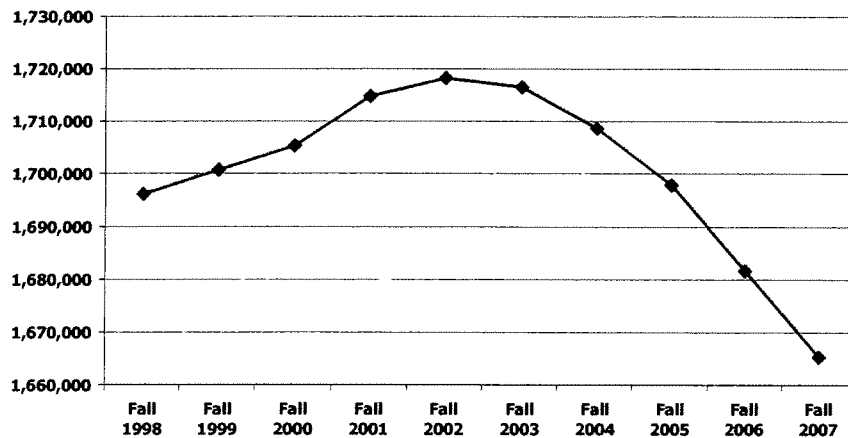
Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- More than half of all districts face declining enrollment.
- The FY 2006-07 budget includes \$20 million to districts to be distributed as grants based on a three-year average pupil count for those with two consecutive years of decline. The actual total cost would reach almost \$200 million, so payments will be prorated.

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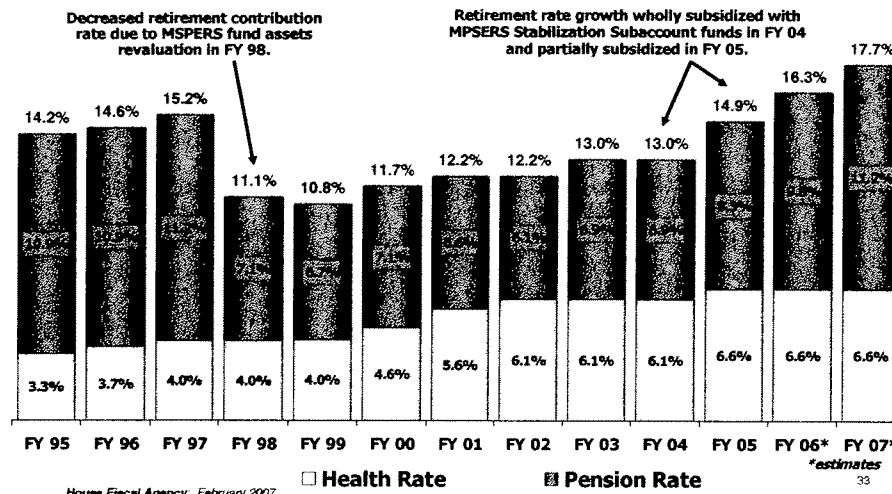
Total Pupil Counts



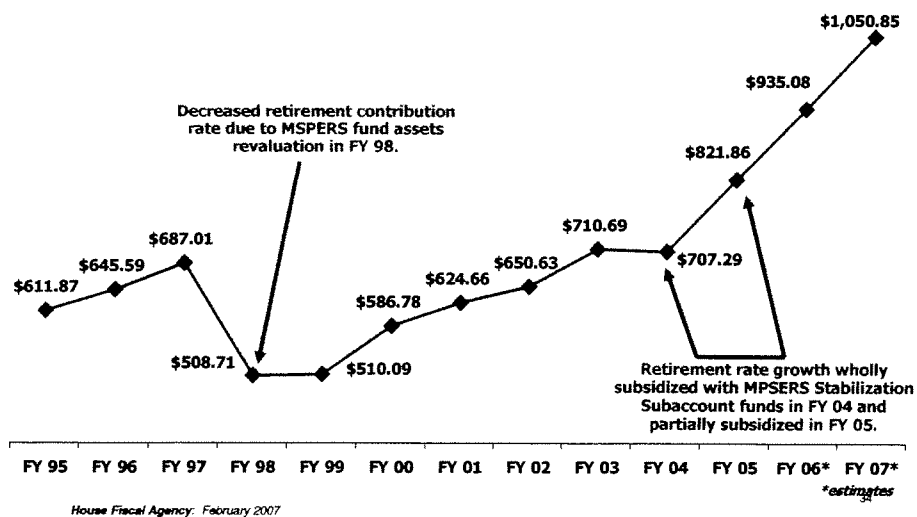
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School Retirement Contribution Rate



Average Retirement Cost Per Pupil



School Infrastructure

- There is no state support for school infrastructure.
- Districts may have difficulty raising sufficient local tax revenue to improve or maintain buildings.
- District ability to raise capital outlay funds is inequitable.

School Aid Act vs. Revised School Code

- School Aid Act is unique compared to other budget bills:
 - The Act is done in statute and remains in effect unless amended.
 - All other budget bills have effect for one year only.
- School Aid Act contains both budget and policy directly related to education funding.
- The Code contains all other education policy including for example school organization and elections, curriculum and instruction, and teacher and school employee regulation.
- Typically School Aid issues are dealt with through the appropriations committee and School Code policy is handled through this standing committee.
- Information
 - House Fiscal Agency (HFA) will provide you with fiscal analyses of proposed legislation and detailed information on the overall school budget or individual information on your district.
 - Legislative Service Bureau (LSB) will help with drafting all bills related to the School Code and School Aid Act.

Further Information

Michigan School Aid Act Compiled

- Complete School Aid Act with explanatory appendices
- <http://www.house.mi.gov/hfa/schoolaid.html>

For more information about the School Aid budget, contact:

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